I.T.L. Industries Limited

Annual Report

1973

Corporate Directory

DIRECTORS

C. A. BELL, Q.C.
WALTER A. HADDEN
FIRMAN H. HASS
J. H. HAWKE
PETER HEDGEWICK
C. W. LEONARDI
DONALD C. SUHR

OFFICERS

PETER HEDGEWICK
Chairman
DONALD C. SUHR
President & Chief Executive Officer
DAVID M. VASS
Vice President, Finance & Treasurer
CLARE WINTERBOTTOM
Vice-President
C. A. BELL, Q.C.
Secretary

AUDITORS

GLENDINNING, JARRETT, GOULD & CO.
Windsor, Ontario

TRANSFER AGENT AND REGISTRAR

NATIONAL TRUST COMPANY LIMITED
Montreal, Toronto, Winnipeg,
Calgary, Vancouver

Message to the Shareholders

TO THE SHAREHOLDERS

In summary, during the year ended November 30, 1973, the Company increased its sales, improved cost control, and favorably adjusted selling prices to realize a net profit of $521,548. Additionally, these results were attained while absorbing start-up costs in the development, tooling and marketing of an expanded line of consumer products as an investment for the future.

FINANCIAL

The operating improvement noted in fiscal 1972 continued without experiencing extensive non-recurring costs. Sales increased to $25,024,793 compared to $21,530,124 in the prior year and net profit was $521,548, compared to a combined operating and extraordinary loss of $1,347,074 in the prior year. Net earnings per share amounted to $0.23 compared to the 1972 loss of $1.01.

The net effect on the Company's working capital position at year end was an increase of $1,129,378.

MANAGEMENT

Principal management attention was given to staffing an internal marketing organization to expand distribution of the Company's child-resistant closures and highway safety products in North America. The development and expansion of the Company's marketing staff are directed to the elimination of distribution costs that had adversely affected net selling prices and inhibited control over territorial performance.

MAJOR EVENTS

In April, the Company repurchased the U.S. license agreement for PALM-N-TURN® pharmaceutical vials and other applications of its patented child-resistant closures. The acquisition permits integration of marketing and tooling between Canada and the U.S. and expands the potential for sales and earnings in this patented product line.

Upon appraising the Company's industry status and the required future tooling investments, the RAY-O-LITE lamp line for recreational vehicles, motor homes, and trailers was sold at a nominal profit. The Company retained, and is expanding, those products applicable to the highway safety equipment field.

After analysis of return on investment from its subsidiary in the United Kingdom, its future growth pattern, financing and management requirements, the Company determined that the funds invested in the U.K. could more profitably be utilized in North America and consequently, the subsidiary was sold. A continuing technical services agreement has been signed which provides access to the European Economic Community for the Company's lens technology.

OPERATIONS

Wheatley Manufacturing division realized a 29 per cent gain in the sale of die sets and accessories to metal fabricating plants. Wheatley is beginning distribution of standard plastic mold accessories, a complementary product to its established line of die components.

The Canadian tooling group improved its financial performance through adjusted cost/selling price relationships and selectivity of work within a pattern that minimized premium cost incurred to meet delivery commitments.

Kenton Molded Plastics, at Kenton, Ohio, was converted from contract molding, its principal operation, to a proprietary product operation, and will become the main U.S. source of PALM-N-TURN® products and highway safety equipment.

At the end of the year, Ray-O-Lite Inc., at Huntington Beach, California, began the assembly of highway safety triangles in addition to its processing of highway safety markers for western North American customers. The improved plant utilization and the reduction in freight costs to serve this area are expected to benefit the subsidiary's future profit performance.

Reflex's performance was adversely affected by the inability to secure price increases from its customers as quickly as costs escalated, since many customers adhered to government imposed price controls. A substantial number of unprofitable sales made during 1973 have now been eliminated. However, labour and material cost increases may continue more rapidly than contract selling prices can generally be adjusted. Should this condition occur, Reflex's capabilities will be directed more toward proprietary products as the developing market organization gains in strength.

PRODUCT REVIEW

1. Consumer Protected Products:

The Company is assisted by government-mandated demands for its major consumer product lines — child-resistant closures and highway safety equipment.

PALM-N-TURN® production is being expanded in both Canada and the U.S. Previous production problems have been overcome by the development of a new Mark I cap configuration which has demonstrated improved production reliability. Tooling conversion is continuing into the current fiscal year. Field tests of the PALM-N-TURN® liquid-proof adaptations continue to report encouraging results and the Company intends to actively promote these on a production basis in the near future.

The marketing efforts extended in the sale of highway safety warning devices have been encouraging and we look forward to expansion of this volume. Highway pavement marker activity is expected to be increased by the release of additional U.S. government funds for primary and secondary roadway usage. Slow Moving Vehicle signal sales are expanding through the distribution channels being developed for the highway safety warning devices.

2. Tooling — Proprietary and Custom:

Wheatley Manufacturing Division continues to expand its facilities for the manufacture of its catalogue line of die sets, both in size and quantity. Through simultaneous expansion of its sales force, division management is directing efforts to penetrate added market areas.

The Canadian custom tooling group enters the 1974 fiscal year with a higher backlog for plastic molds and die cast dies. The demand appears firm considering current changes in consumer automotive model preference, and taking into account the expected tooling requirements of other industries now investigating cost and availability factors in the more efficient use of materials.

3. Contract Manufacture:

Some reduction in contract manufacturing may be expected. The Company is exercising more selectivity and is aggressively persuing contracts for lens assemblies and other parts which are best suited to efficient use of present facilities. It is expected that any production time released by this policy will be absorbed by the developing demand for proprietary products.

OUTLOOK

We expect the combined impact of raw material shortages, energy problems and continuing inflation will affect profit margins and volume generally, creating difficulty in assessing 1974 projected operations. The Company does, however, expect a relatively high level of demand for its principal product lines which appear less vulnerable due, in part, to mandated demand and in part, to the stimulation of change. With increasing emphasis on marketing, we anticipate an encouraging future.

We sincerely appreciate the continuing support of our shareholders, customers, and employees and extend our gratitude for the cooperation and helpful suggestions which we have received.

On behalf of the Board of Directors,

Donald C. Suhr,
President &
Chief Executive Officer.

Consolidated Statement of Earnings

For the year ended November 30, 1973

I.T.L. Industries Limited

and its subsidiaries

	1973	1972
Sales	$25,024,793	$21,530,124
Cost of sales including selling, general and administrative expenses	22,172,854	20,129,191
Earnings before the following deductions	2,851,939	1,400,933
Depreciation	1,019,085	1,032,557
Amortization of financing costs, and patents	23,477	25,128
Interest on long-term debt	605,242	602,935
Other interest	194,267	222,968
	1,842,071	1,883,588
Earnings (loss) before income taxes	1,009,868	(482,655)
Income taxes (note 3)		
Current	421,620	52,968
Deferred	66,700	(259,871)
	488,320	(206,903)
Earnings (loss) before extraordinary items	521,548	(275,752)
Extraordinary items		(1,071,322)
Net earnings (loss)	$ 521,548	$ (1,347,074)
Earnings (loss) per common share		
Before extraordinary items	$0.23	$ (0.33)
Net earnings (loss)	0.23	(1.01)

Consolidated Statement of Retained Earnings

For the year ended November 30, 1973

	1973	1972
Retained earnings, (deficit) beginning of year	$ (477,865)	$ 869,209
Net earnings (loss)	521,548	(1,347,074)
Retained earnings, (deficit) end of year	$ 43,683	$ (477,865)

Consolidated Balance Sheet

November 30, 1973

ASSETS

	1973	1972
CURRENT ASSETS		
Cash	$ 146,434	$ 187,497
Accounts receivable	4,390,612	4,369,194
Inventories at lower of cost and net realizable value	3,778,610	3,161,623
Prepaid expenses and other assets	89,607	120,553
	8,405,263	7,838,867
PROPERTY, PLANT AND EQUIPMENT, at cost	13,770,196	14,093,015
Less: Accumulated depreciation	6,622,018	6,211,697
	7,148,178	7,881,318
DEFERRED INCOME TAXES (note 3)	288,200	319,940
OTHER ASSETS		
Organization and financing costs, less amounts amortized	335,195	346,673
Patents, less amounts amortized	147,769	159,768
	482,964	506,441
EXCESS OF COST OF SHARES OF SUBSIDIARIES OVER NET ASSETS ACQUIRED (note 7)	1,167,105	1,167,860
	$17,491,710	$17,714,426

Approved by the Board:

C. A. Bell, Q.C., Director

D. C. Suhr, Director

LIABILITIES

	1973	1972
CURRENT LIABILITIES		
Bank advances (note 2)	$ 1,290,079	$ 2,461,293
Accounts payable and accrued liabilities	2,625,942	2,082,961
Current portion of long-term debt	548,928	593,403
Income taxes	175,350	65,624
	4,640,299	5,203,281
LONG-TERM DEBT (note 4)	7,278,694	7,459,976
	11,918,993	12,663,257

SHAREHOLDERS' EQUITY

	1973	1972
SHARE CAPITAL (note 5)		
Authorized		
166,650 preference shares with a par value of $25 each, issuable in Series		
3,045,488 common shares without par value		
Issued		
44,000 6½% cumulative redeemable preference shares, series A, redeemable at par	1,100,000	1,100,000
52,650 6½% cumulative redeemable convertible preference shares, Series B, redeemable at par	1,316,250	1,665,000
1,597,244 common shares	2,919,750	2,571,000
	5,336,000	5,336,000
RETAINED EARNINGS (DEFICIT)	43,683	(477,865)
CONTRIBUTED SURPLUS	193,034	193,034
	5,572,717	5,051,169
	$17,491,710	$17,714,426

Consolidated Statement of Source and Application of Funds

For the year ended November 30, 1973

	1973	1972
SOURCE OF FUNDS		
From operations		
Earnings (loss) before extraordinary items	$ 521,548	$ (275,752)
Deduction not requiring a current outlay of funds		
Depreciation	1,019,085	1,032,557
Amortization	23,477	33,107
Income taxes—deferred, less deferred income tax of $34,960 on sale of subsidiary (note 7)	31,740	(259,871)
	1,595,850	530,041
Proceeds of sale of property, plant and equipment, less additions		172,423
	1,595,850	702,464
APPLICATION OF FUNDS		
Net additions to property, plant and equipment	285,190	
Net reduction of long-term debt	181,282	637
Purchase of preference shares for cancellation		11,653
Extraordinary items		1,046,281
	466,472	1,058,571
INCREASE (DECREASE) IN WORKING CAPITAL	1,129,378	(356,107)
WORKING CAPITAL, BEGINNING OF YEAR	2,635,586	2,991,693
WORKING CAPITAL, END OF YEAR	$ 3,764,964	$ 2,635,586

Consolidated Statement of Contributed Surplus

For the year ended November 30, 1973

	1973	1972
Contributed surplus, beginning of year	$ 193,034	$ 179,562
Discount on preference shares purchased for cancellation		13,472
Contributed surplus, end of year	$ 193,034	$ 193,034

Notes to the Consolidated Financial Statements

November 30, 1973

1. Basis of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries.

Accounts of subsidiaries expressed in currencies other than Canadian have been included on the following basis:

Fixed assets at the rate of exchange prevailing at the time of acquisition, current assets and current liabilities at the rate of exchange prevailing at November 30, 1973 and earnings at the average rate of exchange throughout the year.

2. Bank advances

Bank advances are secured by a general assignment of accounts receivable and certain inventories.

3. Income taxes

Deferred income tax charges and credits

			1973	1972
Deferred income tax charges expected to be realized in future years due to application of losses against future years' taxable income; applicable to years:				
	1969	$335,300		
	1970	100,700		
	1971	55,000		
	1972	160,800		
	1973	26,300	678,100	959,000
Deferred income tax credits, net of charges, due to timing differences, principally in claims for capital cost allowances for tax purposes in excess of depreciation charges			(389,900)	(639,060)
			$ 288,200	$ 319,940

Realization of the deferred income tax charges is contingent upon the Company and certain subsidiaries earning sufficient profits in future years. As a result of certain business decisions effected in fiscal 1973, in the opinion of the directors and management it is virtually certain that future earnings of the Company and certain subsidiaries will be sufficient to realize these benefits.

Not included in the amount of deferred income tax charges is the tax effect of loss carry forwards of approximately $1,200,000 in subsidiaries in the United States. These loss carry forwards commence expiring in 1976.

Unrecorded deferred income tax credits amount to $266,000. These credits arose from capital cost allowances in excess of depreciation recorded in prior years.

In a subsidiary income taxes otherwise payable have been reduced by approximately $60,000 due to the application of a loss carry forward against the current year's taxable income.

4. Long-term debt
(Secured by mortgages and floating charges on assets)

	1973	1972
6.20% Secured Sinking Fund Debentures, Series A, maturing June 15, 1984.	$ 635,000	$ 650,000
6½% Secured Sinking Fund Debentures, Series B, maturing December 15, 1985.	410,000	420,000
8½% Secured Sinking Fund Debentures, Series C, maturing June 15, 1988.	1,665,000	1,700,000
8% Convertible Sinking Fund Debentures, 1969 series, maturing October 1, 1988. Sinking fund requirements commence in 1980. (For details of conversion see note 5).	3,000,000	3,000,000
The Company may at any time redeem before maturity part or all of the above outstanding debentures.		
8-7/16% loan, maturing July 15, 1980.	1,504,000	1,650,042
Other long-term debt, maturing to 1976.	613,622	633,337
	7,827,622	8,053,379
Less: Current portion	548,928	593,403
	$7,278,694	$7,459,976

The payments required in the next five years to meet long-term debt instalments and sinking fund provisions are:

1974	—	$548,928
1975	—	772,177
1976	—	557,479
1977	—	427,400
1978	—	427,400

5. Share capital

Common Shares

There are Share Purchase Warrants entitling the holders thereof to purchase 15,000 Common Shares of the Company (subject to certain adjustments) up to June 1, 1978 at a price varying from $16 to $20 per share (subject to certain adjustments) according to the date the warrants are exercised.

Under the terms of the issue of the 8% Convertible Sinking Fund Debentures, 1969 Series, each $1,000 Debenture is convertible into 50 Common Shares on or before October 1, 1974, decreasing anually to 33 Common Shares on or before October 1, 1984.

165,000 Common Shares of the authorized 3,045,488 Common Shares are reserved against conversions referred to in the two preceding paragraphs.

Preference Shares

The preference, rights, conditions, restrictions, limitations and prohibitions attached to the Series A, Preference Shares require that, commencing in 1966, the Company allocate on or before the first day of March in each year an amount of $25,000 as a purchase fund for the purchase of such shares for cancellation. The balance of the purchase fund is $85,033 (1972 — $60,033).

The Series B, Preference Shares are redeemable at par by the Company at any time after June 1, 1978. Each Series B, Preference Share is convertible into 1.563 Common Shares on or before June 1, 1974, decreasing annually to 1.250 Common Shares on or before June 1, 1978.

During the year 23,151 Common Shares were issued on conversion of 13,950 Series B, Preference Shares.

Dividend arrears on the cumulative preference shares amount to $378,384 at November 30, 1973.

6. Statutory information

(a) The aggregate direct remuneration to the directors and senior officers of the Company was $184,593 (1972 — $128,525).

(b) Sales by class of business were as follows:

	1973		1972	
Tools and dies	$16,110,477	64.3%	$14,831,188	68.9%
Plastic products	8,914,316	35.7%	6,698,936	31.1%
	$25,024,793	100.0%	$21,530,124	100.0%

(c) The exercise of conversion and option privileges of the Company's securities would not have had a dilutive effect on earnings per share.

7. Transactions

On November 30, 1973 shares of a wholly owned subsidiary International Tools (U.K.) Limited were sold for cash. A gain of $22,614 from this transaction is reflected in the accounts. The excess cost of shares of subsidiaries over net assets acquired was reduced $755.

AUDITORS' REPORT

To the Shareholders,
I.T.L. Industries Limited.

We have examined the consolidated balance sheet of I.T.L. Industries Limited and its subsidiaries as at November 30, 1973 and the consolidated statements of earnings, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at November 30, 1973 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Windsor, Ontario,
February 28, 1974

GLENDINNING, JARRETT, GOULD & CO.
Chartered Accountants

The I.T.L. Group of Companies

Wholly-Owned Subsidiaries or Divisions

INTERNATIONAL TOOLS (1973) LIMITED

INTERNATIONAL TOOLS
Sandwich P.O. Box 68,
Windsor, Ontario N9C 3Y8

- Manufacturers of injection and compression molds for the production of plastic and die cast parts and components for the automotive, electrical appliance and general industries. Facilities include model shop, heat-treating units, numerical controlled equipment and E.D.M. (electrostatic discharge machines).

REFLEX
P.O. Box 1180,
Amherstburg, Ontario N9V 2Z8

- Molds, assembles and decorates plastic components for the automotive and other industries.
- Manufacturers of Palm-N-Turn® safety caps and vials.

WHEATLEY MANUFACTURING
DIVISION OF ELCO-WOOD
INDUSTRIES LIMITED.
2590 Ouellette Avenue,
Windsor, Ontario N9A 6L8.

- Canada's largest producer of steel die sets. Suppliers to leading tool and die companies throughout Canada. Also manufactures special bushings and die hardware.

I.T.L. INDUSTRIES, INCORPORATED
P.O. Box 960A, Detroit, Michigan 48232.

- U.S. parent company of

I.T.L. HIGHWAY SAFETY PRODUCTS
P.O. Box 960A, Detroit, Michigan 48232.

- Sales of retro-reflective products for highway safety and farm use.

KENTON MOLDED PLASTICS
740 West Lima Street,
Kenton, Ohio 43326.

- Manufacturers of injection molded reflectors and plastic parts for I.T.L. operations.

MED-A-SAFE
P.O. Box 960A,
Detroit, Michigan 48232

- Palm-N-Turn® safety caps and vials for prescriptions.

RAY-O-LITE, INCORPORATED
16102 Gothard Street,
Huntington Beach, California 92647.

- Manufacturers of highway safety products.

WHEATLEY ECONOMY DIE SETS, INCORPORATED
23751 Dequindre,
Hazel Park, Michigan 48030.

- Warehousers and distributors of Wheatley products in the U.S.